

Message Text

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12

ACTION EB-11

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FM AMEMBASSY BUENOS AIRES

TO SECSTATE WASHDC 6817

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E.O. 11652: N/A

TAGS: EIND, AR

SUBJECT: MONTEDISON CHEMICAL COMBINE OF ITALY TO
INVEST IN ARGENTINA.

1. ON MAY 20, A DELEGATION FROM MONTEDISON OF MILAN MET WITH PERON AND SENIOR GOA OFFICIALS, AND FORMALLY AGREED TO PARTICIPATE IN A MAJOR WAY IN THE DEVELOPMENT OF THE ARGENTINE PETROCHEMICAL SECTOR. ACCORDING TO PRESS ACCOUNTS, MONTEDISON MAY PROVIDE UP TO \$1 BILLION IN EQUITY CAPITAL AND CREDITS. HOWEVER, SOURCES SAY THAT THE ITALIAN FIRM'S PRESENT INTEREST IS LIMITED TO THE BAHIA BLANCA COMPLEX.

2. THE NUCLEUS OF THE COMPLEX IS AN ETHYLENE/PROPYLENE PLANT BEING BUILT FOR PETROQUIMICA BAHIA BLANCA (PBB), WITH EXIMBANK FINANCING. PBB IS 51 PERCENT STATE OWNED AND 49 PERCENT PRIVATELY OWNED (ARG.US. AND JAPANESE CAPITAL). AS PLANNED BY THE PREVIOUS GOVERNMENT, THE DOWNSTREAM OR SATELLITE PLANTS WOULD HAVE BEEN PRIVATELY OWNED
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AND OPERATED. HOWEVER, THE GOA AND MONTEDISON HAVE

APPARENTLY AGREED IN PRINCIPLE TO RECONSTITUTE AND RECAPITALIZE PBB IN ORDER TO INCLUDE THE ETHYLENE/PROPYLENE PLANT AND ALL OF THE DOWNSTREAM PLANTS, NONE OF WHICH HAS BEEN STARTED, IN ONE ENTITY.

3. INDUSTRY SOURCES REPORT THAT THE EXPANDED PBB WOULD BE CAPITALIZED AT \$100 MILLION WITH THE GOA HOLDING 51PERCENT AND MONTEDISON UP TO 49 PERCENT. REPORTEDLY, THE PRIVATE INVESTORS IN THE PRESENT PBB WILL BE ABLE TO MAINTAIN THEIR INVESTMENT IN THE NEW CORPORATION. MONTEDISON, IN ADDITION TO PROVIDING CAPITAL, WOULD ALSO PROVIDE CREDITS FOR EQUIPMENT NEEDED FOR THE 6 OR 7 SATELLITE PLANTS WHICH ARE EXPECTED TO BE BUILT. CREDITS COULD AMOUNT TO APPROXIMATELY \$ 100 MILLION.

4. WE HAVE ALSO HEARD FROM A EUROPEAN DIPLOMATIC SOURCES THAT THE NEWSPAPER ACCOUNTS OF THE PROPOSED MONTEDISON INVESTMENT ARE EXAGGERATED. ACCORDING TO THIS SOURCE, MONTEDISON WOULD ACTUALLY PUT UP 50 MILLION DOLLARS IN EQUITY CAPITAL AND WOULD MAKE AVAILABLE UP TO 400 MILLION DOLLARS IN SUPPLIER CREDIT.

5. WE WOULD APPRECIATE COMMENTS FROM ROME/MILAN CONCERNING REPORTS DESCRIBED ABOVE. WE WOULD PARTICULARLY LIKE TO HAVE YOUR ESTIMATE OF THE AMOUNT OF EQUITY CAPITAL TO BE PROVIDED BY MONTEDISON.

6. COMMENT: IF THIS DEVELOPMENT GOES AHEAD AS PLANNED, IT WOULD GREATLY LIMIT THE POSSIBILITY OF U.S. EQUIPMENT SALES FOR THE PBB SATELLITE PLANTS. THE BRIGHT SPOT IS THAT THE COMPLEX MAY NOW BEGIN MOVING. SOME PRIVATE INVESTORS (ARGENTINE AND U.S.) HAVE BEEN INTERESTED IN VARIOUS OF THE SATELLITE PLANTS BUT NONE ARE UNDER CONSTRUCTION BECAUSE OF DELAYS IN OBTAINING GOA APPROVAL OR THE LACK OF A FINAL COMMITMENT BY THE INVESTORS. MOREOVER, NO AWARD HAS BEEN MADE FOR THE CONSTRUCTION OF THE ETHANE/PROPANE SEPARATION PLANT WHICH WILL UNCLASSIFIED

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PROVIDE THE RAW MATERIALS FOR THE BASIC PBB PLANT. IT NOW APPEARS THAT EVEN IF CONSTRUCTION OF THE SEPARATION PLANT AND THE SATELLITE PLANTS GETS UNDER WAY IMMEDIATELY, THE ETHYLENE/PROPYLENE PLANT WILL BE COMPLETED 18 MONTHS BEFORE IT IS NEEDED. MONTEDISON PARTICIPATION MIGHT PREVENT THAT FIGURE FROM SLIPPING TOO MUCH. MONTLLOR

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